

01740

1994/08/00

EVENT SCENARIO

Event: Meeting with Vice Premier Li Lanqing

Date: Monday, August 29, 1994

Time: 4:00-4:45 p.m.

Location: Great Hall of the People, Zhong Nan Hai or Diao Yu Tai State Guest House

Participants: Limited to 25, including:

Secretary Brown
Ambassador Roy
Suggested USG list (small meeting)
Secretary Brown
Ambassador Roy
Governor Caperton
Stein
Garten
Rothkopf
Interpreter Jim Brown

Joined by:
Lew
Kyle
Fitz-Pegado
Sands
Moss
Hendryx

Business:
Systems Integrated
Olmec
Chrysler
TRW
Wertheim Schroeder
Expert Edge
Entergy
De Leuw Cather
AST
Loral
Foster Wheeler

Objective: TBD

Advocacy: The Secretary will want to use this opportunity to advocate on a number of major projects in which U.S. companies are vying for contracts among numerous industry sectors. An advocacy letter supporting these projects signed by the Secretary should be handed to the Minister during the meeting. A discussion on the projects on which the Secretary should advocate during this meeting is attached as a non-paper.

Overview: TBD. We will request an initial 15 minute session for small senior delegation to be followed by larger delegation including full interagency and business delegation. During the last 15 minutes, the business delegation would enter and introduce themselves; perhaps one designee from the business delegation would follow with brief remarks.

Press Plan: TBD

Gift: TBD; generally delivered after the meeting through protocol officers.

MEETING WITH VICE PREMIER LI LANQING

Background

Overview

You will have a short, private meeting with Vice Premier Li, before being joined by other senior members of your delegation as well as members of the business delegation. During the last part of your meeting, members of the business delegation will introduce themselves and a selected member of the business delegation may make brief remarks on behalf of the business delegation. Vice Premier Li has responsibility for the foreign trade portfolio and has been described by the press as an advocate of reforming China's foreign trade system. Your meeting presents an excellent opportunity to raise U.S. concerns regarding China's foreign trade regime (IPR and services) and recent developments in China's economy, particularly China's announcement of a new industrial policy. State would also like you to encourage Vice Premier Li to attend the United Nations Trade Efficiency Symposium to be held in Columbus, Ohio. Li strongly supports China's GATT membership and is likely to be well-briefed on this issue. He will also likely raise IPR and Taiwan. (Please refer to the Key Bilateral Issues paper for background on IPR, GATT, etc).

Background

China's Economic and Trade Reforms. In November 1993, Beijing announced an economic reform package that is intended to simultaneously further market-oriented reforms and increase the center's control over macroeconomic policy. Key elements of the reform package include tax, banking, enterprise, investment, and currency reform. Although the Chinese implemented tariff reductions on almost 3000 items at the end of 1993, concern over the trade deficit is preventing reform in some areas. A draft law establishing the independent status of the central bank was submitted to the National People's Congress June 28 and three "policy" banks to fund government initiatives are now operating. Enterprise reform, a high priority, has not accelerated this year but is likely to gain momentum next year. On January 1, China unified its exchange rates and opened an interbank foreign exchange market, centered in Shanghai. In June of this year, Beijing released its "Outline of Industrial Policy for the Nineties" and an accompanying industrial-policy document for the automobile industry. The document on the automobile industry stipulates that auto imports will be controlled and that automotive joint ventures with foreign producers must meet specific domestic content targets or face higher tariff rates on imported auto components. Information on how the new industrial policy affects other sectors has yet to be released.

U.N. Trade Symposium. State would like you to encourage Vice Premier Li's participation in the U.N. Trade Symposium which will be held in Columbus, Ohio, October 17-21. Your invitation would be in follow-up to the invitation issued to China by the U.N. UNCTAD has invited Li to be a member of the symposium advisory board and to participate in a ministers' panel discussion on Wednesday, October 20. This event will bring together 100 trade ministers and their senior officials in customs, telecommunications, transport, trade facilitation, banking, and insurance to discuss innovative ways to make trade more efficient through the full use of information technology.

MEETING WITH VICE PREMIER LI LANQING

Talking Points

INTRODUCTION

- I AM HONORED TO HAVE THE OPPORTUNITY TO LEAD THE FIRST CABINET-LEVEL VISIT TO CHINA IN THE WAKE OF THE PRESIDENT'S DECISION ON CHINA'S MFN STATUS.
- AS YOU KNOW, I AM HERE IN CHINA TO LEAD A PRESIDENTIAL BUSINESS DEVELOPMENT MISSION. THIS MISSION IS THE LARGEST U.S. COMMERCIAL DELEGATION EVER TO VISIT CHINA.
- REPRESENTED ON THIS MISSION ARE U.S. INDUSTRY LEADERS IN THE TELECOMMUNICATIONS, ENERGY, TRANSPORTATION, AND SERVICES SECTORS—AREAS WHERE U.S. TECHNOLOGY AND TECHNICAL EXPERTISE EXCEL AND CHINA'S DEVELOPMENT NEEDS ARE GREATEST. YOU WILL MEET THEM SHORTLY.
- THESE AND OTHER FIRMS ARE EAGER TO PARTICIPATE IN CHINA'S INFRASTRUCTURE DEVELOPMENT; MANY ARE BIDDING ON KEY PROJECTS WHICH ARE LIKELY TO BE DECIDED ON IN THE NEAR FUTURE.
- ANOTHER PURPOSE OF MY MISSION IS TO SET IN PLACE A VARIETY OF COOPERATIVE AGREEMENTS UNDER THE JOINT COMMISSION ON

COMMERCE AND TRADE (JCCT) AND TO INITIATE A PROGRAM OF TECHNICAL EXCHANGES.

- AT NO OTHER TIME IN OUR BILATERAL RELATIONSHIP HAVE WE HAD A BETTER OPPORTUNITY TO ADVANCE OUR COMMERCIAL RELATIONSHIP WITH CHINA. WE WOULD LIKE TO WORK WITH YOU TO FULLY REALIZE THE POTENTIAL OF OUR COMMERCIAL RELATIONSHIP. I BELIEVE THAT BOTH THE U.S. AND CHINA HAVE MUCH TO GAIN THROUGH A STRONGER ECONOMIC PARTNERSHIP.

INTELLECTUAL PROPERTY RIGHTS

- DESPITE THE PRESENCE OF A GOOD LEGAL FOUNDATION IN CHINA FOR THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS, THE ABSENCE OF ENFORCEMENT OF THOSE LAWS AND REGULATIONS—ESPECIALLY IN THE AREAS OF COPYRIGHT AND TRADEMARK PRODUCTS—HAS CREATED SERIOUS PROBLEMS.
- BECAUSE OF THE ABSENCE OF EFFECTIVE IPR ENFORCEMENT AND SEVERE MARKET ACCESS BARRIERS—BOTH OF WHICH RESULT IN ENORMOUS LOSSES TO U.S. INDUSTRY—AMBASSADOR KANTOR HAD NO CHOICE BUT TO IDENTIFY CHINA AS A PRIORITY FOREIGN COUNTRY ON JUNE 30 AND INITIATE A SPECIAL 301 INVESTIGATION.

- U.S. COMPANIES LOSE UP TO \$800 MILLION ANNUALLY TO PIRACY OF COPYRIGHTED WORKS ALONE IN CHINA. THIS PIRACY HAS SERIOUS COMMERCIAL IMPLICATIONS FOR CHINA. NOT ONLY ARE AMERICAN COMPANIES LOSING MONEY, BUT THE PIRACY HARMS CHINA'S OWN COMPANIES.
- THE UNITED STATES WANTS TO WORK CONSTRUCTIVELY WITH CHINA TO IMPROVE IPR ENFORCEMENT IN CHINA.

SERVICES

- CHINA'S MARKET FOR SERVICES REMAINS CLOSED IN MANY RESPECTS TO U.S. COMPANIES—WITH THE EXCEPTION OF SOME EXPERIMENTS IN BANKING, INSURANCE AND OTHER SERVICE AREAS.
- IN INSURANCE, BUSINESS SERVICES, COMMUNICATIONS SERVICES, TRAVEL SERVICES AND OTHER AREAS, CHINA'S MARKET REMAINS VERY RESTRICTIVE. WE ASK THAT CHINA OPEN THESE MARKETS TO U.S. COMPANIES, THE MOST COMPETITIVE IN THE WORLD, IN MANY CASES.

ECONOMIC REFORMS

- INDUSTRIAL POLICY. I UNDERSTAND THAT CHINA RECENTLY UNVEILED A NEW INDUSTRIAL POLICY THAT SEEKS TO ACCELERATE

DEVELOPMENT OF "PILLAR INDUSTRIES" CONSIDERED CRITICAL TO SUSTAINING CHINA'S RAPID ECONOMIC DEVELOPMENT.

- ALTHOUGH ONLY LIMITED INFORMATION IS AVAILABLE, WHAT WE HAVE SEEN SO FAR OF CHINA'S RECENTLY ANNOUNCED INDUSTRIAL POLICIES IS OF GREAT CONCERN. SEVERAL ASPECTS--SUCH AS LOCAL CONTENT REQUIREMENTS FOR THE AUTO INDUSTRY--ARE CLEARLY NOT IN LINE WITH GATT/WTO PRINCIPLES.
- WE ARE INTERESTED IN LEARNING MUCH MORE ABOUT CHINA'S INDUSTRIAL POLICY PLANS. WE EXPECT THAT THEY WILL BE IN CONFORMITY WITH GATT/WTO NORMS.
- CHINA'S NEW DEVELOPMENT BANK. I UNDERSTAND THAT CHINA RECENTLY ANNOUNCED THE ESTABLISHMENT OF A NEW STATE DEVELOPMENT BANK, MODELED AFTER THE WORLD BANK. WE ARE INTERESTED IN LEARNING MORE ABOUT THE BANK'S ROLE IN APPROVING AND FUNDING INFRASTRUCTURE PROJECTS.

U.N. TRADE EFFICIENCY SYMPOSIUM

- AS HOST MINISTER, I WELCOME YOUR PARTICPATION IN THE U.N. TRADE EFFICIENCY SYMPOSIUM WHICH WILL BE HELD IN COLUMBUS, OHIO THIS FALL. YOUR ATTENDANCE WOULD CONTRIBUTE GREATLY

TO THE SYMPOSIUM AND CHINA WOULD BENIFIT FROM LEARNING OF THE NEW TECHNOLOGIES AVAILABLE TO FACILITATE EXPORTING.

GATT (IF RAISED)

- U.S. "STAUNCH" SUPPORT OF CHINA'S ACCESSION. THE UNITED STATES HAS SUPPORTED, AND CONTINUES TO SUPPORT, THE ENTRY OF CHINA INTO THE GATT, AND INTO THE INTERNATIONAL TRADING COMMUNITY, ON TERMS THAT ARE APPROPRIATE TO CHINA'S ECONOMIC AND TRADE SYSTEM AND COMPATIBLE WITH GATT PRINCIPLES.
- CHINA HAS APPROACHED THE GATT NOT AS A CENTRALLY PLANNED, NON-MARKET ECONOMY, BUT AS A COUNTRY WHOSE ECONOMIC AND TRADE SYSTEM IS BEING REFORMED TO PRODUCE A REGIME THAT CAN ACTUALLY ADOPT GATT-MANDATED MECHANISMS TO REGULATE ITS TRADE AND TO ACHIEVE TRUE MARKET ACCESS.
- HOWEVER, BOTH CHINA AND THE CONTRACTING PARTIES (CPS) ARE AWARE THAT CHINA'S ECONOMIC AND TRADE SYSTEM IS NOT YET GATT COMPATIBLE. A NEGOTIATED SET OF ECONOMIC SAFEGUARDS IN CHINA'S PROTOCOL OF ACCESSION IS ONE OF THE STEPS WHICH COULD SPEED CP ACCEPTANCE OF CHINA'S GATT MEMBERSHIP AND ACCELERATE CHINA'S INTERNAL REFORM.

- **LDC TREATMENT IN GATT. CHINA IS ONE OF THE FASTEST GROWING TRADING NATIONS IN THE WORLD AND IS INTERNATIONALLY COMPETITIVE IN MANY INDUSTRIAL AREAS. SUCH A LARGE, COMPETITIVE, GROWING AND TRANSFORMING TRADE REGIME CANNOT BE REGARDED AS A LESS-DEVELOPED COUNTRY IN ITS GATT RELATIONS.**
- **CHINA SHOULD CONTINUE TO TAKE A CONSTRUCTIVE APPROACH TO ITS GATT/WTO ACCESSION NEGOTIATIONS, UNDERSTANDING THAT COMMITMENTS TO FURTHER SOLIDIFY CHINA'S REFORMS AND OPENING TO THE WORLD SERVE CHINA'S ECONOMIC INTERESTS AS MUCH OR MORE THAN THEY SERVE THOSE OF THE OTHER GATT CPS.**
- **COVERAGE OF U.S. TARIFF REQUEST LIST. THE UNITED STATES HAS PRESENTED ITS GATT/WTO TARIFF REQUEST TO CHINA. THIS DOCUMENT WAS VERY CAREFULLY PREPARED. IT IS A REASONABLE AND STRAIGHTFORWARD REQUEST REPRESENTING U.S. TRADE INTERESTS AND INCORPORATING THE HARMONIZED TARIFF REDUCTIONS AGREED TO IN THE URUGUAY ROUND.**
- **THE UNITED STATES REQUEST FOR COMPREHENSIVE AND COMMERCIALLY MEANINGFUL TARIFF REDUCTIONS REFLECTS THE CONTINUING INTEREST OF THE U.S. BUSINESS COMMUNITY IN GAINING**

ACCESS TO AND COMPETING FAIRLY IN THE LARGE AND GROWING CHINA MARKET.

- "FOUNDING" MEMBERSHIP IN THE WTO. WE ARE AWARE OF CHINA'S DESIRE TO COMPLETE ITS GATT ACCESSION NEGOTIATIONS BY THE END OF 1994, IN ORDER TO QUALIFY FOR "FOUNDING" MEMBERSHIP IN THE WTO, WHICH WAS ESTABLISHED AT THE APRIL 15 MARRAKESH MEETING AND WHICH WE EXPECT TO BE IMPLEMENTED AT THE END OF THIS YEAR.

- GIVEN THE SIZE, COMPLEXITY AND RAPIDLY CHANGING CHARACTERISTICS OF CHINA'S TRADE REGIME, AND THE CONCERNS OF MANY CONTRACTING PARTIES ABOUT CHINA'S ABILITY TO UNIFORMLY IMPLEMENT FUNDAMENTAL GATT OBLIGATIONS, WE DO NOT BELIEVE THAT AN ARTIFICIAL OR ARBITRARY DEADLINE, SUCH AS QUALIFYING FOR FOUNDING MEMBERSHIP IN THE WTO, SHOULD BE IMPOSED ON COMPLETION OF CHINA'S ACCESSION.

FINANCING ISSUES (IF RAISED)

- TDA AND OPIC. WE AGREE THAT BOTH TDA AND OPIC ARE IMPORTANT TO FURTHERING COMMERCIAL COOPERATION BETWEEN OUR TWO COUNTRIES. THE PRESIDENT'S RECENT DECISION ON

CHINA'S MFN STATUS CALLED FOR THE CONTINUATION OF THE
SUSPENSION OF BOTH OF THESE PROGRAMS IN CHINA.